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Department of State **TELEGRAM** 233

CONFIDENTIAL 339

PAGE 01 TRIPOL 00895 021107Z

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INFO OCT-01 SS-20 EUR-12 NSC-10 NSCE-00 INR-06 CIAE-00

NEA-08 E-02 INT-01 COM-02 L-02 PRS-01 RSR-01 RSC-01

EA-11 TRSY-06 NSAE-00 /089 W

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TO SECSTATE WASHDC 6211
INFO AMEMBASSY BENGHAZI

C O N F I D E N T I A L TRIPOLI 895

LIMDIS

C O R R E C T E D C O P Y FOR PARA 3 AND 4

SUBJECT : OIL NEGOTIATIONS

REFERENCE: STATE 55123

1. WE HAVE NO HARD FACTS TO ADD TO TRIPOLI 711 ABOUT LARG CONTINGENCY PLANNING, IN EVENT CURRENT OIL NEGOTIATIONS FAIL, SINCE LARG HAS NOT CONFIDED DETAILS TO US OR TO COMPANIES. WHAT WE HAVE PIECED TOGETHER FROM COMMENTS OF PETROLEUM MINISTRY AND LNOC OFFICIALS, OFFICIAL PRESS COMMENTARIES AND MOVEMENTS OF OIL OFFICIALS -- SEASONED WITH OUR OWN SPECULATION -- IS FOLLOWING: RCC HAS AUTHORIZED MAGHRABI'S NEGOTIATING COMMITTEE TO FORMULATE CRUDE OIL DISPOSAL PROGRAM FOR UP TO ONE MILLION B/D OF CRUDE TO BE TAKEN BY LARG AT COST FOR DIRECT SALE, WITH LIKE AMOUNT TO BE LIFTED BY CONCESSIONAIRES PAYING ROYALITY AND TAXES ON PRESENT POSTINGS. ASSUMING DISCOUNT OF TEN CENTS PER BARREL OFF PRESENT REALIZATIONS, WE ESTIMATE LARG WOULD RECEIVE NO MORE THAN ONE-HALF OF ESTIMATED $1.4 BILLION OIL REVENUE ACCRUING TO IT FOR 1970 AT AVERAGE DAILY PRODUCTION AND EXPORT RATE OF 3.5 MILLION BARRELS VALUED AT PRESENT POSTINGS.

2. AT SAME TIME, LARG'S ESTIMATED ORDINARY BUDGET FIGURES

DECLASSIFIED

Department of State **TELEGRAM**

CONFIDENTIAL

PAGE 02 TRIPOL 00895 021107Z

NOT YET RELEASED) EXPENDITURE COMMITMENTS FOR FY-1970/71 ARE MINIMUM OF $1.3 BILLION. WHILE LARG LIKELY TO UNDERSPEND DEVELOPMENT COMMITMENT OF $560 MILLION BY UP TO $200 MILLION, DOING SO INTENTIONALLY WOULD GREATLY DIMINISH IMPACT OF DEVELOPMENT PROGRAM ANNOUNCEMENT AND WOULD STILL LEAVE, UNDER "CONTINGENCY PLAN," PROBABLE REVENUE SHORTFALL OF AT LEAST $400 MILLION. WE THINK IT WOULD BE POLITICALLY IMPOSSIBLE FOR LARG TO TRIM THIS MUCH FROM ORDINARY EXPENDITURE AND COMMITMENTS TO ARAB GOVERNMENTS AND ORGANIZATIONS. DRAWING HEAVILY ON RESERVES WOULD BE UNPOPULAR AND TEMPORARY SOLUTION. HENCE, WE ARE UNABLE TO MAKE FISCAL SENSE OUT OF WHAT WE UNDERSTAND OF LARG CONTINGENCY PLANNING.

3. NON-ECONOMIC JUSTIFICATIONS FOR DIRECT CRUDE OIL MARKETING, CITED OR IMPLIED BY LARG OFFICIALS, ARE: REALIZATION OF NATIONAL CONTROL, ACQUISITION OF CRUDE MARKETING EXPERIENCE, AVOIDANCE OF ARBITRATION WHICH WOULD LIKELY FOLLOW NATIONALIZATION OR IMPOSITION OF HIGHER POSTINGS, AND REDUCTION OF PRESENT HIGH PRODUCTION/RESERVE RATIO TO CONSERVE WASTING ASSET.

4. WHETHER OR NOT DIRECT MARKETING IS FEASIBLE AND IS FINANCIALLY SOUND, NATIONALIST DRIVES SEEM TO BE PUSHING LARG AT LEAST TO EXPLORE THIS POSSIBILITY. PETROLEUM MINISTRY U/S GABLAAWI CURRENTLY IS VISITNG BERLIN TO DISCUSS EAST GERMAN ASSISTANCE IN PETROCHEMICALS AND/ WE BELIEVE, TO TALK IN TERMS OF BATERING LIBYAN CRUDE FOR EQUIPMENT AND SERVICES IF PROJECT SHOULD GO FORWARD. FROM BERLIN, GABLAAWI IS TO VISIT TOKYO FOR ANNOUNCED PURPOSE OF DISCUSSING JAPANESE PURCHASES OF CRUDE. ECONOMICS OF SALES TO JAPAN ARE NOT SO BAD AS THEY MAY SEEM, IF TRANSPORTATION ARRANGED ON BACKHAUL FROM PERSOAN GULF TO EUROPE. SPECULATTING ON OTHER POSSIBLE MARKETS, WE CAN CONCEIVE OF OTHER EAST EUROPEAN OFFIERS IN ADDITION TO THAT REPORTEDLY TENDERED BY SOVIETS (TRIPOLI 8WYQILN AND ALSO OF LIMITED DISGUISED SALES IN WESTERN EUROPE THROUGH BROKERS. ADDING THESE POSSIBILITIES TOGETHER, LARG MIGHT BE ABLE TO DISPOSE OF MILLION B/D.

5. WHATEVER THE PRECISE NATURE OF LARG CONTINGENCY PLANNING, THERE HAVE BEEN NO MEETINGS YET BETWEEN NEW NEGOTIATING COMMITTEE (TRIPOLI 769) AND COMPANIES, NOR ARE ANY PRESENTLY SCHEDULED. COMMITTEE SEEMS TO BE FULLY ABSORBED IN ITS

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Department of State **TELEGRAM**

CONFIDENTIAL

PAGE 03 TRIPOLI 00895 021107Z

HOMEWORK -- PERHAPS TRYING TO FIND SOLUTIONS TO PROBLEMS WE HAVE OUTLINED HERE. GP-4.
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